

## Message Text

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ACTION SS-25

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E.O. 11652: GDS

TAGS: ENRG ID

SUBJ: COMPANY OIL PROCEDURES IN INDONESIA

REF: A) JAKARTA 10125

B) JAKARTA 11034

1. SUMMARY: PRESIDENT SUHARTO HAS ORDERED GOI TO RE-NEGOTIATE COMPANY SHARE OF OIL PROFIT WITH CALTEX AND STANVAC AND TO TIGHTEN THE ACCOUNTING PROCEDURES ON PRODUCTION SHARING CONTRACTS. MEASURES SEEN AS ALTERNATIVE TO DEVALUATION IN FACING CURRENT FINANCIAL DIFFICULTIES. MINISTER MINES HAS INFORMED ME PRESIDENT SUHARTO MAY WISH TO EXPLAIN RATIONALE IN PERSON TO ME NEXT WEEK. THIS TELEGRAM REQUESTS INSTRUCTIONS. END SUMMARY.

2. MINISTER OF MINES SADLI CALLED ME URGENTLY SEPTEMBER 26 TO REPORT CONCLUSIONS OF MEETING BETWEEN PRESIDENT SUHARTO AND ECONOMIC MINISTERS SEPTEMBER 25 WHICH RESULTED IN DECISION TO RENEGOTIATE COMPANY PROFIT SHARES IN INDONESIAN CONTRACT OF WORK ARRANGEMENTS WITH CALTEX AND STANVAC.

3. SADLI EXPLAINED THAT GOVERNMENT STILL FACED SUBSTANTIAL DRAINS AS RESULT OF PERTAMINA OBLIGATIONS, INCLUDING EXTERNAL PAYMENTS FOR GOODS DELIVERED AND BANK LOAN RE-

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PAYMENTS. THIS HAS ALREADY AMOUNTED TO \$1.2 BILLION THROUGH

SEPTEMBER 1 AND EXPECTATION IS FOR ADDITIONAL \$500 MILLION THROUGH END OF YEAR. GOI HAS ALREADY OBTAINED \$575 MILLION THROUGH MORGAN GUARANTY AND JAPANESE LOANS AND IS SEEKING ADDITIONAL \$500 MILLION IMMEDIATELY, PRESUMABLY THROUGH MORTAN GUARANTY SYNDICATE. THIS WILL STILL LEAVE NET DRAIN EXCEEDING \$500 MILLION. FOREIGN EXCHANGE RESERVES ARE DOWN TO \$500 MILLION, NET RESERVES AMOUNTING TO ONLY \$100 MILLION. TIME IS PARTICULARLY CRITICAL BETWEEN NOW AND OCTOBER 15 BY WHICH TIME SOMETHING APPROACHING \$1 BILLION WILL HAVE BEEN RECEIVED IN OIL REVENUES. (BOMMENT: EMBASSY CALCULATIONS INDICATE 1975 OFFICIAL OIL REVENUES ON THE ORDER OF \$3 BILLION FOR THE FULL YEAR.)

4. SADLI SAID THAT GENERAL IBNU AND WIJARSO HAD HOPED TO AVOID ANY RENEGOTIATION OF COMPANY CONTRACTS, AT LEAST UNTIL MARKET TURNED UPWARD AND OPEC OIL PRICE QUESTION WAS SETTLED. UNDER PRESENT SITUATION, PRESIDENT AND OTHER MINISTERS SEE POLITICALLY UNPOPULAR MOVE OF DEVALUATION AS SOLE ALTERNATIVE TO THESE MEASURES. GOVERNMENT HAS ALREADY MADE MAXIMUM POSSIBLE REDUCTION IN PURCHASES AND EXPENSES.

5. PRESENT CALTEX PER BARREL PROFIT UNDER CONTRACT OF WORK IS \$2.38, COMPARED WITH COMPANY PROFIT AVERAGE OF EIGHT OPEC COUNTRIES OF 23 CENTS. STANVAC PER-BARREL PROFIT IS \$2.47.

6. COMPANIES UNDER PRODUCTION SHARING MAKE PROFIT OF \$1.82 PER BARREL BUT GET BACK AN AVERAGE OF \$4.76 PER BARREL TO REIMBURSE PRODUCTION COSTS.

7. WHAT INDONESIA WILL NOW SEEK TO DO IS TO NEGOTIATE WITH CALTEX A REDUCTION OF PROFIT OF APPROXIMATELY \$1.00 PER BARREL. (COMMENT: REDUCTION OF THIS AMOUNT IN COMPANY TAKE LEAVES IT VERY SUBSTANTIALLY ABOVE THAT IN MIDDLE EAST. INFORMATION FROM PRIVILEGED SOURCE INDICATES OBJECTIVE IN SETTING THIS PARAMETER TO LEAVE RETURN ON INVESTED CAPITAL IN INDONESIA ABOVE RETURN ELSEWHERE BUT BY A SMALLER MARGIN THAN AT PRESENT. PRODUCTION-SHARING CONTRACTS WILL NOT BE CHANGED BUT MORE RIGID

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ACCOUNTING PROCEDURES IN ACCORDANCE WITH "GENERALLY ACCEPTED U.S. ACCOUNTING PRACTICES" WILL BE ESTABLISHED. SADLI SAID THAT AT PRESENT THERE WAS NOT TRUE AUDIT OF AMOUNTS THE COMPANIES CLAIM AS COSTS.

8. PRESIDENT EXPLAINED THAT WHILE HE HATED REOPEN CONTRACTS, CONTRACTS WOULD BE NO GOOD IF INDONESIA COULD NOT MAINTAIN POLITICAL AND FINANCIAL SECURITY. STEPS

HAD TO BE TAKEN ON BASIS PRESERVATION OF "NATIONAL RESILIENCE."

9. I ASKED SADLI WHETHER THERE HAD ALSO BEEN DISCUSSION OF PRICE QUESTION. HE SAID PRICE WOULD HAVE TO DEPEND ON OPEC ACTION BUT THERE WAS GENERAL RECOGNITION THAT INDONESIAN OIL WAS OVERPRICED. PETROMER TREND HAD ALREADY BEEN PERMITTED LOWER PRICE TO \$11.10 PER BARREL ON BASIS DIFFERENCE IN CRUDE QUALITY. IF OPEC REACHED DEADLOCK, INDONESIA WOULD PROBABLY LOWER PRICE.

10. I EXPLAINED THAT TRADITIONALLY U.S. GOVERNMENT DID NOT CONSIDER ITSELF INVOLVED IN CONTRACTURAL ARRANGEMENTS BETWEEN GOVERNMENTS AND COMPANIES. WE DID ATTACH IMPORTANCE TO MAINTENANCE OF CONTRACTS AND TO FAIR TREATMENT OF COMPANIES. IN VIEW OF PRESIDENT'S INTEREST AND HIS POSSIBLE DESIRE SPEAK TO ME ON SUBJECT AND IN VIEW INTENSE U.S. INTEREST IN ENERGY MATTERS, I TOLD SADLI I WOULD TRANSMIT SUBSTANCE HIS CONVERSATION AND SEEK SUCH GUIDANCE AS DEPARTMENT MIGHT WISH PROVIDE FOR POSSIBLE CONVERSATION WITH PRESIDENT. CONVERSATION WITH PRESIDENT COULD COME AS EARLY AS SEPTEMBER 29.

11. INDONESIAN MOVE IS IN ACCORDANCE WITH RECOMMENDATIONS MADE BY BOTH INDONESIAN AND FOREIGN ADVISORS BUT RESISTED TO DATE BY IBNU AND WIJARSO. SADLI DID NOT SAY WHEN NEGOTIATIONS WITH COMPANIES WOULD OPEN NOR WHEN COMPANIES WOULD BE INFORMED, ALTHOUGH A PLAUSIBLE OPPORTUNITY WILL ARISE IN PRICE CONSULTATIONS WITH CONTRACTORS SCHEDULED FOR 30 SEPTEMBER - 2 OCTOBER. FOR PRESENT, ABOVE INFORMATION SHOULD BE KEPT WITHIN U.S. GOVERNMENT.

12. GIVEN WHAT APPEARS TO BE UNIQUELY HIGH PROFITS CURRENTLY

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RENTLY OBTAINED BY OIL COMPANIES IN INDONESIA AND OUR SIGNIFICANT POLITICAL RELATIONS HERE, I WOULD ASSUME WE WOULD NOT DISCOURAGE GOI EFFORTS TO INCREASE THEIR REVENUE FROM OIL PRODUCTION BUT WOULD AT SAME TIME URGE FAIRNESS IN NEGOTIATIONS AND UTILIZATION OF REALISTIC PRICE FOR OIL OUTPUT.  
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